

Message Text

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ACTION NEA-16

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R 121014Z JUN 74

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 6847

INFO AMEMBASSY ABU DHABI

USINT ALGIERS

AMEMBASSY BONN

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KHARTOUM

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

USINT BAGHDAD

C O N F I D E N T I A L TEHRAN 4820

STATE ALSO FOR T/IEP

E.O. 11652: GDS

TAGS: ENRG, IR

SUBJ: ENERGY: NIOC: EXPORT REFINERIES, SALES, RELATIONS WITH
CONSORTIUM AND REORGANIZATION

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1. SUMMARY: NIOC OFFICIAL TOLD EMBOFF HEADS OF AGREEMENT ON

U.S. AND GERMAN EXPORT REFINERIES SHOULD BE SIGNED SOON, AND INDICATED NIOC WILLING TO REOPEN NEGOTIATIONS WITH JAPANESE GROUP IF LATTER BRINGS IN NEW PROPOSAL ON ASSOCIATED PETRO-CHEMICAL PROJECT. HE SAID NIOC WILL CONTINUE TO WITHHOLD FIGURES ON ITS SALES AT REQUEST OF ITS CUSTOMERS, BUT THAT QUANTITIES SOLD BY NIOC WILL BE INCLUDED IN NIOC TABULATIONS OF EXPORTS BY DESTINATION. ON SUBJECT OF NIOC CONSORTIUM RELATIONS HE SAID GOI FEELS NEW PARTICIPATION ARRANGEMENTS ON OTHER SIDE OF PERSIAN GULF MAY REQUIRE CHANGES IN SOME PURCHASE/SALES AGREEMENT PROVISIONS ON GAS AND POSSIBLY OTHER ARRANGEMENTS. HE UNDERSTANDS REPORT AND RECOMMENDATIONS ON NIOC REORGANIZATION HAVE BEEN PREPARED AND WILL SOON BE PRESENTED TO SHAH FOR FINAL DECISION. END SUMMARY.

2. DR. PARVIZ MINA OF NIOC TOLD EMBOFF THAT IN MAY 30 MEETING IN LONDON WITH AMERICAN EXPORT REFINERY GROUP, HE AND THEY NEGOTIATED HEADS OF AGREEMENT, WHICH ARE NOW BEING DRAFTED AND CIRCULATED TO ALL CONCERNED. HE EXPECTS JUNE 29 SIGNING OF HEADS OF AGREEMENT. (UP TO NOW, ONLY SIGNED DOCUMENTS ARE LETTERS OF INTENT BETWEEN NIOC AND EACH INDIVIDUAL COMPANY. AMERICAN GROUP PRESENTLY INCLUDES SHELL-U.S.A., CITIES SERVICE, APCO, COMMONWEALTH AND CROWN CENTRAL.) EXECUTIVE COMMITTEE OF AMERICAN COMPANY AND NIOC DIRECTORS, WHICH HAS BEEN CONDUCTING THE NEGOTIATIONS, HAS NOW ESTABLISHED THREE TECHNICAL COMMITTEES: ONE ON IMPLEMENTATION (TO PLAN TECHNICAL SIDE OF PROJECT), ONE ON FINANCING, AND ONE ON TRANSPORTATION. ASKED WHETHER NIOC AND COMPANIES HAD AGREED ON PRICE TO BE PAID BY JOINT VENTURE REFINERY FOR CRUDE, MINA SAID ALL PARTIES HAD ACCEPTED FROM BEGINNING THAT PRICE WILL BE "OPEC MARKET PRICE," PRESUMABLY TO BE ESTABLISHED ONE OF THESE DAYS. MINA SAID NIOC/GERMAN EXPORT REFINERY PROJECT IS MOVING ALONG AT SAME PACE AND STAGE AS AMERICAN ONE. (COMMENT: FLOUR SOURCE TOLD ECONCOUNS JUNE 9 THAT IN GERMAN CASE JOINT VENTURE IS ABOUT TO BE FORMED.) MINA SAID NIOC STILL WANTS THREE 500,000 B/D EXPORT REFINERIES, AND IS CURRENTLY WAITING FOR JAPANESE GROUP TO BRING IN NEW PROPOSAL ON MATTER OF PETROCHEMICAL PLANT ASSOCIATED WITH EXPORT REFINERY. EMBOFF ASKED IF NIOC WOULD ACCEPT A JAPANESE PROPOSAL SIMILAR TO SOLUTION THEY ACCEPTED IN CASE OF GERMAN REFINERY (THAT IS, LETTER OF INTENT FROM DIFFERENT GERMAN CONSORTIUM AGREEING TO BUILD PETROCHEMICAL

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PLANT NEXT TO REFINERY). MINA SAID HE BELIEVED NIOC WOULD ACCEPT SUCH A PROPOSAL. IF JAPANESE DO NOT COME UP WITH NEW PROPOSAL, NIOC WILL BEGIN CONSIDERING LONG WAITING LIST OF JOINT-VENTURE PROPOSALS. NIOC WILL NOT ENTERTAIN ANY NEW PROPOSALS, HE SAID, DUE EXTREME LENGTH OF THIS WAITING LIST.

3. MINA SAID NIOC SALES FIGURES WILL CONTINUE TO BE HELD AS CONFIDENTIAL AT REQUEST OF NIOC'S CUSTOMERS. EMBOFF NOTED THAT

UNFORTUNATELY THESE FIGURES DO NOT APPEAR TO BE INCLUDED IN NIOC'S TABULATION (RECENTLY RECEIVED BY EMBASSY) OF IRAN'S OIL EXPORTS BY DESTINATION, AND THAT THIS TABULATION IS THEREFORE INCOMPLETE. MINA SAID THEY SHOULD BE INCLUDED AND THAT HE WOULD CHECK INTO THIS MATTER. ASKED ABOUT AID/TRADE DEALS WITH INDIA AND SUDAN, MINA SAID SALES ON SPECIAL TERMS TO INDIA INCLUDE NIOC SUPPLIES TO MADRAS REFINERY PLUS ONE MILLION LONG TONS FOR A TOTAL OF SOME THREE MILLION LONG TONS IN 1974. NO OIL IS BEING SUPPLIED TO SUDAN, HE SAID. (COMMENT: THIS DIFFERS FROM INFORMATION PREVIOUSLY RECEIVED BY THIS EMBASSY. WE HAVE NOT YET BEEN ABLE TO RESOLVE CONFLICTING REPORTS.)

4. EMBOFF ASKED ABOUT RUMORED DIFFERENCES OF OPINION ON GAS AND OTHER ISSUES BETWEEN NIOC AND CONSORTIUM. MINA REPLIED THAT THERE IS NO QUESTION OF DIFFERENCE OF OPINION: WHAT NIOC SAYS, GOES. UNDER MFN SIDE-LETTER, HE ADDED, NIOC BELIEVES 60-40 PARTICIPATION AGREEMENTS ACROSS THE GULF REQUIRE CHANGES IN ARRANGEMENTS FOR UTILIZATION OF ASSOCIATED GAS. (COMMENT: 1973 PURCHASE-SALES AGREEMENT CALLS FOR 50-50 JOINT VENTURES BETWEEN NIOC AND CONSORTIUM ON PROJECTS TO EXPORT ASSOCIATED GAS OTHER THAN BY PIPELINE. NIOC NOW WANTS TO CHANGE THIS TO 60-40.) CONCERNING PRODUCTION, MINA SAID NIOC MAY ALLOW CONSTRUCTION OF SME 7.2 MMB/D OF CAPACITY, BUT WILL PROBABLY LIMIT PRODUCTION TO MAXIMUM OF AROUND 6.5 MMB/D. EMBOFF ASKED WHETHER NIOC IS CONTEMPLATING CHANGES IN "STATED QUANTITY," (AMOUNT PROVIDED IN SALES PURCHASE AGREEMENT FOR EXPORT BY NIOC). DR. MINA SAID HE PREFERRED TO MAKE NO STATEMENT ON THIS ISSUE, PENDING DEVELOPMENTS IN KUWAIT AND SAUDI ARABIA. HE ACKNOWLEDGED, HOWEVER, THAT NIOC IS "THINKING ABOUT" THE STATED QUANTITY.

5. MINA INDICATED THAT SHAPE OF LONG-EXPECTED NIOC REORGANIZATION AND OF NIOC RELATIONS WITH MINISTRIES (AMOUZEGAR, MINECON & FINANCE AND MINENERGY) ARE NOT YET CLEAR. HE UNDERSTANDS THAT

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REORGANIZATION COMMITTEE (APPOINTED BY P.M. AFTER HE RECEIVED CONSULTING FIRM'S REPORT ON NIOC) HAS COMPLETED ITS STUDY AND HAS SUBMITTED OR WILL SOON SUBMIT ITS RECOMMENDATIONS TO SHAH. (COMMENT: WE UNDERSTAND CONSULTANT'S REPORT RECOMMENDED INTEGRATED OIL COMPANY STRUCTURE, THAT IS, A PARENT HOLDING COMPANY WITH SEVERAL FUNCTIONAL AFFILIATES. ONE COMMON RUMOR HERE IS THAT P.M.'S COMMITTEE MAY RECOMMEND SPLITTING NIOC AND AFFILIATES INTO SEVERAL SEPARATE COMPANIES.)

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